



Technical Note
Gross Domestic Product
Fourth Quarter of 2007 (Final)
March 27, 2008

This technical note provides background information about the source data and estimating methods used to produce the estimates presented in the GDP news release. The complete set of estimates for the fourth quarter is available on BEA's Web site at www.bea.gov; a brief summary of "highlights" is also posted on the Web site. In a few weeks, the estimates will be published in BEA's monthly journal, the *Survey of Current Business*, along with a more detailed analysis of the estimates ("GDP and the Economy").

Sources of Revision to Components of Real GDP

As a result of largely offsetting revisions to inventory investment and PCE for services, real GDP growth in the fourth quarter was unrevised at 0.6 percent (annual rate).

- Inventory investment was revised down, reflecting the incorporation of newly available fourth-quarter Census Bureau *Quarterly Financial Report* data and revised Census Bureau inventory data for December.
- PCE for services was revised up, mainly reflecting the incorporation of newly available Quarterly Services Survey data on medical care services from the Census Bureau and newly available data on gas usage from the Energy Information Administration.

The price index for gross domestic purchases increased 3.7 percent in the fourth quarter, a downward revision of 0.2 percentage point from the preliminary estimate. The implicit price index for imputed financial services was revised down, based on newly available *Call Report* data from the Federal Reserve Board, which showed lower charges to consumers on bank loans than had been previously estimated.

Corporate Profits

Profits from current production decreased \$52.9 billion, or 3.3 percent (quarterly rate), in the fourth quarter, compared with a decrease of \$20.5 billion, or 1.2 percent, in the third. Profits for 2007 were \$1,595.2 billion, an increase of 2.7 percent from 2006. Corporate profits in the national income and product accounts (NIPAs) reflects the income earned by corporations as a result of current production; the measure is defined as receipts arising from current production less associated expenses.

Asset write-downs and loan-loss provisions are treated differently in corporate financial accounting, when compared to BEA reporting of profits from current production in the NIPAs. In BEA reporting, bad-debt expenses, asset write-downs, and other valuation changes are not counted as current-period expenses that lower profits. Similarly, loan-loss provisions that anticipate possible future losses are not deducted as expenses in the national accounts and do not reduce NIPA profits. In financial accounting, these provisions are charged against income and reduce profits. Note, however, that the quarterly profits estimates are based on source data that do not always separately identify bad-debt expenses, asset write-downs, and loan-loss provisions, so the estimates of these adjustments may be incomplete.

As a result of these reporting differences, profit estimates based on corporate financial accounting can differ markedly from estimates of NIPA corporate profits. In the third and fourth quarters of 2007, many financial companies announced large asset write-downs and additions to loan-loss provisions that reduced the reported financial accounting of profits of these companies. In the derivation of NIPA profits, BEA excluded the impact of these charges and provisions; as a result, NIPA profits for the third and fourth quarter of 2007 are higher than profits derived from financial accounting reports. Additional information is available in the FAQ (“How are bad-debt expenses, asset write-downs, and loan-loss provisions treated in estimating NIPA corporate profits?”) available on BEA’s Web site at www.bea.gov.

In the fourth quarter, real gross value added of nonfinancial corporate business increased, unit labor and nonlabor costs increased, and profits per unit of real value added decreased. Effective with today’s release, the estimates of real gross value added of nonfinancial corporate business were revised, beginning with 2004, reflecting the use of a revised deflator for nonfinancial industries from the annual revision of the GDP-by-industry accounts.

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